

Message Text

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PAGE 01 STATE 187173

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TO AMEMBASSY JAKARTA PRIORITY

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FROM OPIC

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: P. T. DARALON

REF: JAKARTA 9794

1. BEGIN UNCLASSIFIED. GREATLY APPRECIATE EMBASSY ASSISTANCE FOR DOLLARS SIXTY THOUSAND NINE AND FORTY SIX CENTS DISBURSEMENT.

2. BOARD MEETING MENTIONED REFTEL HAD BEEN SCHEDULED FOR 11:00 A.M. JULY 29 AT DARALON'S JAKARTA OFFICE. AGENDA WOULD HAVE INCLUDED FOLLOWING SIGNIFICANT ITEMS (A) REVIEW OF THE COMPANY'S PROPOSED FINANCIAL STATEMENTS FOR PERIOD ENDING JULY 3 INCLUDING ADJUSTMENTS FOR BAD DEBTS AND INVENTORY WRITE-DOWN WHICH WOULD REDUCE NET WORTH TO A NEGATIVE TWO HUNDRED FORTY TWO THOUSAND DOLLARS; (B) THE COMPANY'S RESPONSIBILITIES AND OBLIGATIONS (INCLUDING NOTIFICATION TO GOI OFFICIALS) UNDER ARTICLE 47 OF THE INDONESIAN COMMERCIAL CODE (TECHNICAL INSOLVENCY) AND
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PAGE 02 STATE 187173

POTENTIAL RESULTS THEREFROM (INCLUDING DIRECTORS' LIABILITY;

(C) POSSIBLE TERMINATION OF THECONSULTANT'S CONTRACT WITH SPRINGS FOR NON-PAYMENT OF FEES OR DUE TO ARTICLE 47 PROBLEM; (D) RATIFICATION AND APPROVAL OF THE OPTION AGREEMENT DATED FEBRUARY 19, 1976 AMONG OPIC, IFC, SPRINGS AND

DARALON. HOWEVER, TAMINS HAVE INDICATED THEY WOULD NOT ATTEND AND WOULD NOT BE AVAILABLE FOR SUCH A MEETING FOR QUOTE TWO OR THREE WEEKS UNQUOTE. THIS ACTION/INACTION PLACES COMPANY IN IMMINENT PERIL OF FORMAL FAILURE.

3. CRUX OF THE PROBLEM REMAINS THE TAMINS INTRANSIGENCE WITH RESPECT TO THE TRANSFER OF SPRINGS' SHARES TO INDIAN GROUP (INTECO) AND INTECO'S ASSUMPTION OF MANAGEMENT RESPONSIBILITIES WITHOUT INTERFERENCE FROM TAMINS. AS RESULT OF TAMINS CONTINUED INTRANSIGENCE, OPIC AND IFC EFFECTIVELY PRECLUDED FROM DISBURSING ANY FUNDS TO KEEP THE COMPANY OPERATING.

4. OPIC URGES EMBASSY TO ADVISE GOI AT MOST EFFECTIVE LEVEL OF ITS WILLINGNESS TO KEEP THE COMPANY OPERATING THROUGH LIMITED DISBURSEMENTS PRIOR TO A FIXED CLOSING DATE IF A FORMAL CONSENT, IN FORM AND SUBSTANCE SATISFACTORY TO OPIC, CAN BE OBTAINED FROM TAMINS WITH RESPECT TO THE SALE OF SPRINGS' SHARES AND THE NEW MANAGEMENT CONTRACT. END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE. OPIC CONSIDERS INTECO AGREEMENT TO BE THE COMPANY'S LAST CHANCE FOR SURVIVAL.

NOT ONLY IS IT UNLIKELY THAT ANOTHER PARTNER COULD BE PERSUADED TO COME IN, BUT IF TAMINS SUCCESSFUL IN SCUTTling PRESENT ARRANGEMENTS THEY WOULD BE EVEN MORE DIFFICULT TO DEAL WITH IN THE FUTURE. IN CONTRAST TO IFC OPTIMISM THAT THE COMPANY COULD BE REORGANIZED AND OPERATING APPROXIMATELY NINE MONTHS AFTER A FORMAL BANKRUPTCY, OPIC IS PESSIMISTIC BOTH AS TO THE TIME-FRAME, THE DETERIORATION OF THE PLANT AND THE POSSIBILITY OF ACQUIRING A MANAGEMENT TEAM OF THE SAME ABILITY OF INTECO. IN ANY EVENT, COMPLETE SHUT-DOWN AND BANKRUPTCY OF THE PLANT AT THIS TIME WOULD HAVE A DELETERIOUS EFFECT ON U.S. INVESTMENT IN INDONESIA. FOR LIMITED OFFICIAL USE

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PAGE 03 STATE 187173

THIS REASON, GOI PRESSURE TO OBTAIN TAMINS CONSENT TO ARRANGEMENTS CRUCIAL. END LIMITED OFFICIAL USE. DECLASSIFY FOLLOWING JULY 28, 1977. KISSINGER

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